

**Washington State Health Care Authority**  
**Consolidating K-12 in PEBB**  
**Summary of Issues Associated with the Simple Mandate Option**  
**Working Document as of 10/4/2011**

**Overview:** Bargaining units within school districts currently have the option of participating in the PEBB health benefits program. Only a small number of districts exercise this option today. The HCA has been tasked in proviso language to consider a shift of K-12 employees into PEBB or an alternative structure. For purposes of discussion, we have outlined the following straw man proposal in which we assume that participation in PEBB is mandated for all K-12 employees under the same rules and functionality of the current voluntary system. Thus, in this scenario, we are not treating K-12 employees in the same manner as current active state employees in the PEBB program. This proposal is intended to serve as a tool for identifying critical issues of importance to the K-12 community that should be considered in the development of a purchasing strategy for ANY consolidated K-12 health benefits system.

**Issues and Considerations:**

1. *COVERED BENEFITS:* Current PEBB voluntary model offers two options: full benefits (medical, dental, life and LTD) and medical-only. Current K-12 model typically offers a mandatory core package Dental, Vision, Life and LTD, with optional Medical/Rx. Premiums for non-medical coverage plans are withheld from the pooled dollars before premiums for optional medical coverage.
  - a. Bargaining units may elect to not offer non-medical benefits, but if offered, coverage is mandatory with funding taken first from the state allocation.
  - b. Variety of non-medical covered benefits across school districts.
  - c. Potential for achieving better premium levels.
  - d. May need to address VEBA contribution differences between K-12 and PEBB.
2. *PORTFOLIO DESIGN:* PEBB contracts with two insurance carriers and one third party administrator for a benefit portfolio that consists of PPO or HMO plans that include between two and five product designs depending on geographic area. K-12 system offers PPO and HMO choices that include many more products offered by a larger number of contracted carriers and third party administrators.
  - a. PEBB portfolio does not cover the full range of relative value variation provided by the current K-12 portfolio. Current K-12 has both richer and leaner products. This applies to Medical as well as some vision and dental plans.
  - b. PEBB does not contract with all insurance carriers and third party administrators currently used by K-12 system. However PEBB provider networks have sufficient comparability to K-12 networks to avoid significant disruption in member/provider relationships.

- c. PEBB is adding a consumer directed health plan option for 2012 (which exist in some school districts today) and an enhanced accountability plan for 2013, increasing the sophistication of the portfolio and creating options better customized to client needs.
  - d. Some concern about health savings accounts and state regulations regarding the accumulation of state funding for individuals.
  - e. Could impact local district or WEA ability to offer supplemental plans (e.g. voluntary medical gap coverage)
3. *ELIGIBILITY AND EMPLOYEE CONTRIBUTIONS*: PEBB eligibility as defined in statute and in rule establishes benefit eligibility as 0.5 FTE status or greater. Once eligibility is established, employee contributions are uniform for all active state employees. For current voluntary K-12 districts choosing to participate in PEBB, eligibility rules and employee contributions are established and maintained at the local district level. Mandatory PEBB enrollment for K-12 would not change this practice. (Note that prior to 1/1/10, voluntary K-12 district requirements were different.)
- a. Maintains local bargaining of eligibility and contributions.
  - b. Funding pool system may continue, but the funding for the pools would decrease if the district participates in PEBB because PEBB requires that the monthly contribution be paid even if the employee waives coverage.
  - c. Does not standardize eligibility requirements or employee contributions across employee types or districts.
  - d. Part-time employee and dependent contributions continue to be handled in a different manner than PEBB.
  - e. Does not mandate equity regarding family contributions, dual eligibility or dependent eligibility (e.g. domestic partners).
4. *FUNDING*: Current PEBB rules require transfer of full PEBB cost requirement for those that decline coverage into the PEBB account and revenue is pooled at the program level and distributed across program costs. The current K-12 system pools state allocation and other funds in local account(s) and distributes according to collective bargaining agreements and/or other locally defined arrangements.
- a. Savings from those waiving coverage would be unavailable to the local funding pools.
  - b. Local redistribution of state allocation replaced by uniform program allocation methodology.
  - c. Districts with many eligible part time employees waiving coverage could see a significant cost increase with the loss of pooled funds.

5. *FUNDING*: The Uniform Medical Plan constitutes 60%+ of current PEBB enrollment and the plan is self funded. Current reserve levels and population risk calculations do not account for an increased enrollment by a population of the size of the current K-12 system.
  - a. Inclusion of all K-12 would require significant additional surplus funding up front to meet established target reserve levels for UMP.
  - b. Lack of available member claims experience data across the current K-12 population creates uncertainty of K-12 cost in a self-funded UMP PPO and creates risk for the State.
6. *ADMINISTRATIVE AND OPERATIONS*: Optional Life and LTD coverage (beyond basic level) for voluntary K-12 in the current system is complicated with respect to design and implementation. Both the benefit design and the infrastructure for information transfer would need to be modified to make these optional coverage plans practical for all of K-12.
  - a. Would require a system upgrade over the existing model of managing current political subdivisions.
  - b. Life and disability coverage typically much richer in K-12 than in PEBB.
  - c. January 1 enrollment date for PEBB is difficult for school districts.
7. *TRANSPARENCY*: Accounting for the PEBB program facilitates clear documentation of health care costs and administrative expenses in the program for active employees. Because local districts retain control of eligibility rules and employee contribution strategies, a mandatory K-12 program does not achieve the same level of transparency:
  - a. Does provide greater transparency with respect to aggregate cost of coverage.
  - b. Does not provide greater transparency with respect to eligibility, employee contributions, administrative costs, and funding sources.
8. *GOVERNANCE AND COLLECTIVE BARGAINING*: PEBB is subject to a health care collective bargaining agreement negotiated by a labor super-coalition and the State. The agreement and the bargaining is typically limited to establishing the State's contribution to the cost of care (currently employer/state employee premium sharing as a percentage), unless otherwise agreed to by the State. (The current agreement specified member point-of-service cost sharing for the self-funded UMP option). Current K-12 system is subject to health care collective bargaining at the local bargaining unit level and the bargaining includes eligibility criteria, establishing employer/single subscriber premium sharing, some elements of benefit design (out-of-pocket cost sharing arrangements), family tiers premium levels (tier multiplication factors) and premium sharing, additional local district funding, coverage of optional insurance products and HRA contributions.
  - a. Local bargaining of plan design and potentially the coverage of optional insurance products would move from local bargaining units to PEBB Board.

- b. If super-coalition establishes K-12 benefits and state contribution levels, local districts could be left having to fill a financial gap when individual bargaining groups look to negotiate other issues.
- 9. *GOVERNANCE AND COLLECTIVE BARGAINING*: The PEBB Board composition has one designated member to represent K-12 active employees who does not yet qualify to be a voting member due to a defined threshold K-12 participation level. The PEBB Board has no designated member(s) to represent local school districts.
  - a. Addition of substantially more K-12 school districts to PEBB will qualify the K-12 active representative as an additional voting member of the Board.
  - b. Local school districts will not have a vote during PEBB Board determination of PEBB policy, benefit design, and other decisions moving from local collective bargaining or local district control to PEBB Board authority.

### **Currently Unknown Issues**

- 10. *FUNDING*: Cost impact to the K-12 system would need to be evaluated.
  - a. Aggregate premiums.
  - b. Changes in the level of coverage for medical, dental, vision, life and disability.
  - c. Administrative costs.
  - d. How does the spread between the current K-12 funding level of \$768 and the PEBB contribution requirement of \$850 compare to the level of additional contributions today? Results will vary by district and by bargaining unit.
- 11. *FUNDING*: Cost impact to PEBB would need to be evaluated.
  - a. Additional infrastructure, both IT and staffing.
  - b. Changes to the PEBB risk pool.

### **Critical Concerns**

- A. Model does not solve or completely address the issue of financial transparency.
- B. Current PEBB portfolio would be a benefit reduction for some and a benefit enhancement for others, neither of which may be desirable by members.
- C. Does not address the equity issues of the allocation of state funding and variance in employee/dependent contribution requirements.
- D. Significant administrative challenges, particularly with respect to Life and LTD plans.
- E. Cost impact to current K-12 and PEBB uncertain at this time, both in terms of benefits and administration.
- F. It is not clear that moving K-12 benefits to the PEBB program would increase administrative efficiency for larger districts or for those that participate in large funding pools.